

MRC GLOBAL INC.  
Form 10-Q  
May 03, 2016

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2016

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_

Commission file number: 001-35479

MRC Global Inc.  
(Exact name of registrant as specified in its charter)

Delaware

20-5956993  
(I.R.S. Employer)

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(State or Other Jurisdiction of Identification No.)  
Incorporation or Organization)

Fulbright Tower

1301 McKinney Street, Suite 2300

Houston, Texas 77010  
(Address of Principal Executive Offices) (Zip Code)

(877) 294-7574  
(Registrant's Telephone Number, including Area Code)

\_\_\_\_\_

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [  ] No [  ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [  ] No [  ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer [  ] Accelerated filer [  ] Non-accelerated filer [  ] Smaller reporting company [  ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [  ] No [  ]

The Company's common stock is traded on the New York Stock Exchange under the symbol "MRC". There were 98,650,627 shares of the registrant's common stock (excluding 585,492 unvested restricted shares), par value \$0.01 per share, issued and outstanding as of April 22, 2016.



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## CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

## MRC GLOBAL INC.

(in millions)

	March 31, 2016	December 31, 2015
Assets		
Current assets:		
Cash	\$ 121	\$ 69
Accounts receivable, net	470	533
Inventories, net	720	781
Other current assets	35	22
Total current assets	1,346	1,405
Other assets	22	22
Property, plant and equipment, net	134	127
Intangible assets:		
Goodwill, net	484	484
Other intangible assets, net	448	459
	\$ 2,434	\$ 2,497
Liabilities and stockholders' equity		
Current liabilities:		
Trade accounts payable	\$ 309	\$ 327
Accrued expenses and other current liabilities	100	110
Current portion of long-term debt	8	8
Total current liabilities	417	445
Long-term obligations:		
Long-term debt, net	510	511
Deferred income taxes	208	208
Other liabilities	22	22
Commitments and contingencies		
6.5% Series A Convertible Perpetual Preferred Stock, \$0.01 par value; authorized 363,000 shares; 363,000 shares issued and outstanding	355	355

Stockholders' equity:

Common stock, \$0.01 par value per share: 500 million shares authorized, 102,345,890 and 102,202,599 issued, respectively	1		1	
Additional paid-in capital	1,668		1,666	
Retained deficit	(481)		(467)	
Less: Treasury stock at cost: 3,695,263 and 816,389 shares, respectively	(50)		(12)	
Accumulated other comprehensive loss	(216)		(232)	
	922		956	
	\$	2,434	\$	2,497

See notes to condensed consolidated financial statements.

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## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

## MRC GLOBAL INC.

(in millions, except per share amounts)

	Three Months Ended	
	March 31, 2016	March 31, 2015
Sales	\$ 783	\$ 1,292
Cost of sales	650	1,072
Gross profit	133	220
Selling, general and administrative expenses	137	159
Operating (loss) income	(4)	61
Other expense:		
Interest expense	(8)	(15)
Other, net	(1)	(4)
(Loss) income before income taxes	(13)	42
Income tax (benefit) expense	(5)	13
Net (loss) income	(8)	29
Series A preferred stock dividends	6	-
Net (loss) income attributable to common stockholders	\$ (14)	\$ 29
Basic (loss) earnings per common share	\$ (0.14)	\$ 0.28
Diluted (loss) earnings per common share	\$ (0.14)	\$ 0.28
Weighted-average common shares, basic	100.7	102.1
Weighted-average common shares, diluted	100.7	102.2

See notes to condensed consolidated financial statements.





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CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

MRC GLOBAL INC.

(in millions)

	Three Months Ended	
	March 31, 2016	March 31, 2015
Net (loss) income	\$ (8)	\$ 29
Other comprehensive income (loss)		
Foreign currency translation adjustments	16	(53)
Comprehensive income (loss)	\$ 8	\$ (24)

See notes to condensed consolidated financial statements.

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## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

MRC GLOBAL INC.

(in millions)

	Three Months Ended	
	March 31, 2016	March 31, 2015
Operating activities		
Net (loss) income	\$ (8)	\$ 29
Adjustments to reconcile net (loss) income to net cash provided by operations:		
Depreciation and amortization	5	5
Amortization of intangibles	12	16
Equity-based compensation expense	3	2
Deferred income tax benefit	-	(8)
Decrease in LIFO reserve	(3)	-
Provision for uncollectible accounts	1	1
Foreign currency losses	1	4
Other non-cash items	2	3
Changes in operating assets and liabilities:		
Accounts receivable	67	103
Inventories	24	(9)
Other current assets	(6)	(4)
Income taxes payable	(5)	11
Accounts payable	(22)	(6)
Accrued expenses and other current liabilities	(13)	(32)
Net cash provided by operations	58	115
Investing activities		
Purchases of property, plant and equipment	(10)	(4)
Proceeds from the disposition of non-core product line	48	-
Other investing activities	-	(3)
Net cash provided by (used in) investing activities	38	(7)
Financing activities		
Payments on revolving credit facilities	(23)	(321)

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Proceeds from revolving credit facilities	23		243	
Payments on long-term obligations	(2)		(2)	
Purchase of common stock	(38)		-	
Dividends paid on preferred stock	(6)		-	
Net cash used in financing activities	(46)		(80)	
Increase in cash	50		28	
Effect of foreign exchange rate on cash	2		(4)	
Cash -- beginning of period	69		25	
Cash -- end of period	\$	121	\$	49
Supplemental disclosures of cash flow information:				
Cash paid for interest	\$	8	\$	14
Cash paid for income taxes	\$	1	\$	10
See notes to condensed consolidated financial statements.				

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

MRC GLOBAL INC.

NOTE 1 – BACKGROUND AND BASIS OF PRESENTATION

**Business Operations:** MRC Global Inc. is a holding company headquartered in Houston, Texas. Our wholly owned subsidiaries are global distributors of pipe, valves, fittings (“PVF”) and related products and services across each of the upstream (exploration, production and extraction of underground oil and gas), midstream (gathering and transmission of oil and gas, gas utilities, and the storage and distribution of oil and gas) and downstream (crude oil refining and petrochemical processing) sectors. We have branches in principal industrial, hydrocarbon producing and refining areas throughout the United States, Canada, Europe, Asia, Australasia, the Middle East and Caspian. Our products are obtained from a broad range of suppliers.

**Basis of Presentation:** We have prepared our unaudited condensed consolidated financial statements in accordance with Rule 10-01 of Regulation S-X for interim financial statements. These statements do not include all information and footnotes that generally accepted accounting principles require for complete annual financial statements. However, the information in these statements reflects all normal recurring adjustments which are, in our opinion, necessary for a fair presentation of the results for the interim periods. The results of operations for the three months ended March 31, 2016 are not necessarily indicative of the results that will be realized for the fiscal year ending December 31, 2016. We have derived our condensed consolidated balance sheet as of December 31, 2015 from the audited consolidated financial statements for the year ended December 31, 2015. You should read these condensed consolidated financial statements in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2015.

The consolidated financial statements include the accounts of MRC Global Inc. and its wholly owned and majority owned subsidiaries (collectively referred to as the “Company” or by such terms as “we,” “our” or “us”). All material intercompany balances and transactions have been eliminated in consolidation.

**Reclassifications:** Certain prior-period amounts have been reclassified to conform to the current year presentation, which includes the adoption of Accounting Standards Update (“ASU”) 2015-03 Interest-Imputation of Interest (Subtopic 855-30): Simplifying the Presentation of Debt Issuance Costs.

Recent Accounting Pronouncements: In May 2014, the Financial Accounting Standards Board (“FASB”) issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09 provides comprehensive guidance on the recognition of revenue from customers arising from the transfer of goods and services. The ASU also provides guidance on accounting for certain contract costs and requires new disclosures. The FASB voted to defer the effective date of ASU 2014-09 by one year to annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. We are currently evaluating the effect of the adoption of ASU 2014-09 on our consolidated financial statements and the implementation approach to be used.

In July 2015, the FASB issued ASU 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory. ASU 2015-11 provides guidance on simplifying the measurement of inventory. The current standard is to measure inventory at lower of cost or market; where market could be replacement cost, net realizable value or net realizable value less an approximately normal profit margin. ASU 2015-11 updates this guidance to measure inventory at the lower of cost or net realizable value; where net realizable value is considered to be the estimated selling price in the ordinary course of business, less reasonably predictable cost of completion, disposal and transportation. We expect to adopt this guidance in 2016. This amendment is not expected to have a material impact on the Company's financial position, results of operation or cash flows.

In February 2016, the FASB issued ASU 2016-02, Leases, which will replace the existing guidance in ASC 870, Leases. This ASU requires a dual approach for lessee accounting under which a lessee would account for leases as finance leases or operating leases. Both finance leases and operating leases will result in the lessee recognizing a right-of-use asset and a corresponding lease liability. For finance leases, the lessee would recognize interest expense and amortization of the right-of-use asset, and for operating leases, the lessee would recognize a straight-line total lease expense. This guidance is effective for annual and interim reporting periods of public entities beginning after

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December 15, 2018. We are beginning to evaluate the effect of the adoption of ASU 2016-02 on our consolidated financial results.

In March 2016, the FASB issued ASU 2016-09, Compensation - Stock Compensation, which simplifies the accounting for the taxes related to stock based compensation. Under the standard, excess tax benefits and certain tax deficiencies will no longer be recorded in additional paid-in capital (“APIC”) and APIC pools will be eliminated. Instead, all excess tax benefits and tax deficiencies will be recorded as income tax expense or benefit in the income statement. In addition, excess tax benefits are required to be presented as operating activities rather than financing activities in the statement of cash flows. This guidance is effective for annual and interim reporting periods of public entities beginning after December 15, 2016. This amendment is not expected to have a material impact on the Company's financial position, results of operations or cash flows.

## NOTE 2 – INVENTORIES

The composition of our inventory is as follows (in millions):

	March 31, 2016	December 31, 2015
Finished goods inventory at average cost:		
Energy carbon steel tubular products	\$ 176	\$ 253
Valves, fittings, flanges and all other products	653	647
	829	900
Less: Excess of average cost over LIFO cost (LIFO reserve)	(78)	(89)
Less: Other inventory reserves	(31)	(30)
	\$ 720	\$ 781

Our inventory quantities are expected to be reduced for the year, resulting in a liquidation of a last-in, first out (“LIFO”) inventory layer that was carried at a lower cost prevailing from a prior year, as compared with current costs in the current year (a “LIFO decrement”). A LIFO decrement results in the erosion of layers created in earlier years, and, therefore, a LIFO layer is not created for years that have decrements. For the three months ended March 31, 2016 and 2015, the effect of this LIFO decrement decreased cost of sales by approximately \$1 million and \$0 million, respectively.

## NOTE 3 – LONG-TERM DEBT

The components of our long-term debt are as follows (in millions):

	March 31, 2016	December 31, 2015
Senior Secured Term Loan B, net of discount and issuance costs of \$6 and \$7, respectively	\$ 518	\$ 519
Global ABL Facility	-	-
	518	519
Less: Current portion	8	8
	\$ 510	\$ 511

Senior Secured Term Loan B: We have a seven year Senior Secured Term Loan B (the “Term Loan”) with an original principal amount of \$794 million which amortizes in equal quarterly installments of 1% per year with the balance payable in November 2019 when the facility matures. Subject to securing additional lender commitments, the Term Loan allows for incremental increases in facility size up to an aggregate of \$200 million, plus an additional amount such that the Company’s senior secured leverage ratio (as defined under the Term Loan) would not exceed 3.50 to 1.00. MRC Global (US) Inc. is the borrower under this facility, which is guaranteed by MRC Global Inc. as well as all of its wholly owned U.S. subsidiaries. In addition, it is secured by a second lien on the assets securing



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our Global ABL Facility (which includes accounts receivable, inventory and related assets) and a first lien on substantially all of the other assets of MRC Global Inc. and those of its U.S. subsidiaries, as well as a pledge of all of the capital stock of our domestic subsidiaries and 65% of the capital stock of first tier, non-U.S. subsidiaries. In certain circumstances, we are required to repay the Term Loan with certain asset sales and insurance proceeds, certain debt proceeds and 50% of excess cash flow (reducing to 25% if our senior secured leverage ratio is no more than 2.75 to 1.00 and 0% if our senior secured leverage ratio is no more than 2.50 to 1.00). In addition, the Term Loan contains a number of customary restrictive covenants.

The interest rate for the Term Loan, including the amortization of original issue discount and debt issuance costs, was 5.16% as of March 31, 2016 and 4.98% at December 31, 2015.

Global ABL Facility: We have a \$1.05 billion multi-currency global asset-based revolving credit facility (the “Global ABL Facility”) that matures in July 2019. This facility is comprised of \$977 million in revolver commitments in the United States, \$30 million in Norway, \$20 million in Canada, \$5 million in the United Kingdom, \$10 million in Australia, \$4 million in the Netherlands and \$4 million in Belgium. It contains an accordion feature that allows us to increase the principal amount of the facility by up to \$300 million, subject to securing additional lender commitments.

MRC Global Inc. and each of its current and future wholly owned material U.S. subsidiaries guarantee the obligations of our borrower subsidiaries under the Global ABL Facility. Additionally, each of our non-U.S. borrower subsidiaries guarantees the obligations of our other non-U.S. borrower subsidiaries under the Global ABL Facility. Outstanding obligations are generally secured by a first priority security interest in accounts receivable, inventory and related assets.

Excess Availability, as defined under our Global ABL Facility, was \$587 million as of March 31, 2016.

Debt Issuance Costs: In the first quarter of 2016, we adopted ASU No. 2015-03 Interest-Imputation of Interest (Subtopic 855-30): Simplifying the Presentation of Debt Issuance Costs. This ASU requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability consistent with debt discounts. As a result of the adoption, we have reclassified debt issuance costs associated with our Term Loan of \$4 million and \$5 million as of March 31, 2016 and December 31, 2015, respectively, from other assets to long term debt in our balance sheet. Accordingly, long term debt reported as \$524 million at December 31, 2015 has been revised to \$519 million. Debt issuance costs associated with our Global ABL Facility will continue to be presented in other assets. These amounts were \$8 million as of March 31, 2016 and December 31, 2015, respectively.

NOTE 4 – DISPOSITION OF NON-CORE PRODUCT LINE

In February 2016, we completed the disposition of our U.S. oil country tubular goods (“OCTG”) product line for \$48 million. As a result of this transaction, we incurred a loss of \$5 million that was reflected in our fourth quarter 2015 results. Net of reserves, including LIFO and an adjustment to write the inventory down to its net realizable value, the carrying value of the U.S. OCTG inventories as of December 31, 2015 was \$50 million.

NOTE 5 – REDEEMABLE PREFERRED STOCK

Preferred Stock Issuance

In June 2015, we issued 363,000 shares of Series A Convertible Perpetual Preferred Stock (the “Preferred Stock”) and received gross proceeds of \$363 million. The Preferred Stock ranks senior to our common stock with respect to dividend rights and rights on liquidation, winding-up and dissolution. The Preferred Stock has a stated value of \$1,000 per share, and holders of Preferred Stock are entitled to cumulative dividends payable quarterly in cash at a rate of 6.50% per annum. Holders of Preferred Stock are entitled to vote together with the holders of the common stock as a single class, in each case, on an as-converted basis, except where a separate class vote of the common stockholders is required by law. Holders of Preferred Stock have certain limited special approval rights, including with respect to the issuance of pari passu or senior equity securities of the Company.

The Preferred Stock is convertible at the option of the holders into shares of common stock at an initial conversion rate of 55.9284 shares of common stock for each share of Preferred Stock, which represents an initial conversion

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price of approximately \$17.88 per share of common stock, subject to adjustment. On or after the fifth anniversary of the initial issuance of the Preferred Stock, the Company will have the option to redeem, in whole but not in part, all the outstanding shares of Preferred Stock, subject to certain redemption price adjustments on the basis of the date of the conversion. We may elect to convert the Preferred Stock, in whole but not in part, into the relevant number of shares of common stock on or after the 54th month after the initial issuance of the Preferred Stock if the last reported sale price of the common stock has been at least 150% of the conversion price then in effect for a specified period. The conversion rate is subject to customary anti-dilution and other adjustments.

Holders of the Preferred Stock may, at their option, require the Company to repurchase their shares in the event of a fundamental change, as defined in the agreement. The repurchase price is based on the original \$1,000 per share purchase price except in the case of a liquidation in which case they would receive the greater of \$1,000 per share and the amount that would be received if they held common stock converted at the conversion rate in effect at the time of the fundamental change. Because this feature could require redemption as a result of the occurrence of an event not solely within the control of the Company, the Preferred Stock is classified as temporary equity on our balance sheet.

## NOTE 6 – STOCKHOLDERS’ EQUITY

## Share Repurchase Program

In November 2015, the Company’s board of directors authorized a share repurchase program for common stock up to \$100 million. The program is scheduled to expire December 31, 2017. The shares may be repurchased at management’s discretion in the open market. Depending on market conditions and other factors, these repurchases may be commenced or suspended from time to time without prior notice.

Summary of share repurchase activity under the repurchase program:

	Three Months Ended	
	March 31, 2016	March 31, 2015
Number of shares acquired on the open market	2,878,874	-
Average price per share	\$ 13.39	\$ -
Total cost of acquired shares (in millions)	\$ 38	\$ -

In total, we have acquired 3,695,263 shares under this program at a total cost of \$50 million. There were 98,650,627 shares of common stock outstanding as of March 31, 2016.

## Equity Compensation Plans

Our 2011 Omnibus Incentive Plan originally had 3,250,000 shares reserved for issuance under the plan. In April 2015, our shareholders approved an additional 4,250,000 shares for reservation for issuance under the plan. The plan permits the issuance of stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares, performance units and other stock-based and cash-based awards. Since the adoption of the 2011 Omnibus Incentive Plan, the Company's Board of Directors has periodically granted stock options, restricted stock awards, restricted stock units and performance share units to directors and employees. Options and stock appreciation rights may not be granted at prices less than the fair market value of our common stock on the date of the grant, nor for a term exceeding ten years. For employees, vesting generally occurs ratably over a three to five year period on the anniversaries of the date specified in the employees' respective stock option, restricted stock award, restricted stock unit and performance share unit award agreements, subject to accelerated vesting under certain circumstances set forth in the agreements. Vesting for directors generally occurs on the one-year anniversary of the grant date. In February 2016, 16,789 shares of restricted stock, 334,900 performance share unit awards and 1,149,039 restricted stock units were granted to employees. To date, before consideration of forfeitures, 4,987,800 shares have been granted to management, members of our Board of Directors and key employees under this plan. A Monte Carlo simulation is completed to estimate the fair value of performance share unit awards with a stock price

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performance component. A Black-Scholes option-pricing model is used to estimate the fair value of the stock options. We expense the fair value of equity grants on a straight-line basis over the vesting period.

## Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss in the accompanying consolidated balance sheets consists of the following (in millions):

	March 31, 2016	December 31, 2015
Currency translation adjustments	\$ (215)	\$ (231)
Pension related adjustments	(1)	(1)
Accumulated other comprehensive loss	\$ (216)	\$ (232)
Earnings per Share		

Earnings per share are calculated in the table below (in millions, except per share amounts).

	Three Months Ended	
	March 31, 2016	March 31, 2015
Net (loss) income	\$ (8)	\$ 29
Less: Dividends on Series A Preferred Stock	6	-
Net (loss) income attributable to common stockholders	\$ (14)	